

From the customer's perspective, what are the advantages and disadvantages between using a robo-adviser and a human adviser?

Robo-advisers are a new breed of investment managers that use complex algorithms to manage a client's investment portfolio. Two notable current UK robo-advisers are Nutmeg and Scalable Capital. Although their level of automation differs, both employ technology for their portfolio selection process.

Arguably, the most attractive advantage of robo-advisers is their low fees. A typical robo-adviser in the UK charges an annual fee of less than 1%. Nutmeg charges between 0.3% and 0.95% and Scalable Capital charges around 1%, including the exchange-traded fund costs. A typical wealth manager charges around 2%.

Another attraction of robo-advisers is that they require very low minimum investment amounts. Nutmeg allows an individual to open an account with £500, whereas Scalable Capital requires £5,000. From my personal experience, most financial advisers would hesitate to offer their services for less than £25,000 of investment, out of the reach of many retail investors.

Greed and fear frequently cloud an investor's judgment, but with robo-advisers, emotional biases can be eliminated. For example, Scalable Capital does not allow investors to make changes to their portfolios according to their choice on the presumption that such adjustments may lead to emotional investing.

The major disadvantage of using a robo-adviser is that there is no personal contact with a human being. Frequently, investors simply need to be reassured that the financial rollercoaster ride is part of the journey. A robo-adviser is unable to step in and provide this assurance.

Robo-advisers tend to offer generic portfolios and only really tailor to the customer's need based on their risk profile. For example, with Nutmeg one could not invest within a specific sector of the FTSE 100 because Nutmeg assigns funds according to its fixed models. An investor wanting a portfolio to suit their needs may prefer customised advice.

Although robo-advisers merge fast-developing technology and the world of investments to form a new niche area of investment, the steady hand of an experienced financial adviser is one of the aspects most cherished by investors. Therefore, in my opinion, while robo- advisers reduce the cost of investing, a combination of the two is better suited to most investors.